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SUBJECT: KAZAKHSTAN: BP SUPPORTS CPC EXPANSION - AT THE RIGHT
PRICE

REF: ASTANA 1672

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY. On October 29, Jonathan Popper of British Petroleum's (BP) Exploration Operating Company, briefed Energy Officer on the status of negotiations to expand the capacity of the Caspian Pipeline Consortium (CPC) pipeline from Atyrau to Novorossiysk. He confirmed that BP is actively pursuing an exit strategy, identified several remaining legal issues, and expressed optimism that a deal would be reached before the end of 2008. END SUMMARY.

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13. (SBU) Popper said that, despite press reports to the contrary, BP is "actively pursuing a strategy of exiting CPC" and continues to negotiate with other CPC partners to sell its 6% share in the consortium, which it holds through its interests in LukArco, a Lukoil/BP joint venture, and Kazakhstan Pipeline Ventures (KPV) LLC, a KazMunaiGas/BP joint venture. (NOTE: Current CPC shareholders are Transneft - 24%; KazMunaiGas - 19%; Oman - 7%; Chevron - 15%; LukArco - 12.5%; Mobil - 7.5%; Rosneft - 7.5%; Agip - 2%; British Gas - 2%; Oryx Caspian Pipeline LLC - 1.75%; and Kazakhstan Pipeline Ventures LLC - 1.75%. END NOTE). Popper emphasized that BP is not opposed to CPC expansion. In fact, he said, two weeks ago, BP voted in favor of a resolution to spend \$100 million on expansion engineering. However, BP must "secure our exit" before it will sign a Memorandum of Understanding (MOU) on expansion.

IN SEARCH OF A SECURE EXIT

14. (SBU) Popper suggested that BP would be willing to sign the MOU on expansion even before it completes the sale of its interests in KPV and LukArco, provided they receive certain legal guarantees. In

particular, BP wants a commitment that no one will block their exit and that CPC will release them from what they consider to be onerous financial guarantees. Specifically, BP is pressing for the following legally binding agreements:

- Agreement with KMG to release them from the KPV joint venture;
- Agreement with Lukoil to release them from the LukArco joint venture;
- Agreement with CPC shareholders to (a) let BP sell its shares to Lukoil and KMG and (b) release them from the guarantees intrinsic to those joint venture agreements;
- Agreement with Tengizchevroil (TCO) partners to let BP sell its shares to one or more international oil and gas companies (as a contingency, should the share sales to Lukoil and KMG fail); and
- Agreements with the Republic of Kazakhstan to exit CPC and TCO.

15. (SBU) Popper reported "pretty good progress" in securing all of the above agreements and expressed optimism that negotiations could be concluded by the end of 2008, if not sooner. BP teams have been meeting each week with both KMG and Lukoil to negotiate a sales price and Popper said that these negotiations are making progress. He also stated that BP has had "strong support" from both the Governments of Russia and Kazakhstan throughout these negotiations.

U.S. PARTNERS PRESENT MORE OF A CHALLENGE

16. (SBU) According to Popper, a much bigger challenge has been obtaining the consent of Chevron and ExxonMobil. In September, BP

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sent them and all other CPC shareholders a draft agreement that would allow BP to sell its interests in CPC to Lukoil and KMG. Surprisingly, BP received negative responses from both Chevron and ExxonMobil, neither of which was prepared to offer BP a firm, written approval. However, late last week, BP received a counter-proposal, which does not satisfy all of their needs, but did show a good faith effort to reach an agreement. As Popper put it, "At least we now know that Chevron and Exxon-Mobil accept the principle of a legally binding agreement."

17. (SBU) COMMENT. Popper was positive and businesslike in his tone and outlook. Since BP owns only a minor share in upstream oil assets (approximately 3% of TCO, through the Lukarco joint venture), it makes sense for them to exit CPC as expeditiously as possible so as not to complicate an expansion which is not in their commercial interests. At this point, BP is not asking for the U.S. Government to facilitate negotiations or take sides in the matter. BP does, however, seem eager to provide Washington with its perspective on negotiations, perhaps to counterbalance what it perceives as biased information from U.S. partners in the consortium. END COMMENT.

HOAGLAND